

NEWS RELEASE

FOR RELEASE: December 3, 2012

Lou Ann Murphy & Company, P.L.L.C., of Osage today released an audit report on the City of Osage, Iowa.

The City's receipts totaled \$4,268,831 for the year ended June 30, 2012, a 52.9 percent decrease from prior year. The receipts included \$1,251,612 from charges for services, \$1,050,073 from property tax, \$650,336 from operating grants, contributions and restricted interest, \$590,639 from tax increment financing, \$288,309 from local option sales tax, \$52,898 from unrestricted interest on investments, \$4,500 from capital grants, contributions and restricted interest, and \$380,464 from other general receipts.

Disbursements for the year totaled \$5,490,875 a 35.9 percent decrease from the prior year, and included \$1,444,619 for debt services, \$980,618 for public safety, and \$693,260, for culture and recreation. Also, disbursements for business type activities totaled \$1,155,221.

The significant decrease in receipts and disbursements is due primarily to the refinancing of debt with the Cedar River Complex in fiscal year 2011.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/index.html>.

CITY OF OSAGE

**INDEPENDENT AUDITOR'S REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2012

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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2012
Carolyn Johnson	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2012
Bev Schuler	Treasurer	Jan 2012
Richard Gross	Attorney	Jan 2012
Jerry Dunlay	Director of Public Works	Jan 2012
John Michels	Park Commissioner	Jan 2016
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Pam Masmar	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2017
Brad Weber	Library Trustee	Jul 2017
Herb Wright	Library Trustee	Jul 2012
Dennis Johnson	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013
(After January 2012)		
Steven Cooper	Mayor	Jan 2016
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2016
Kurt Elliott	Council Member	Jan 2016
Judy Voaklander	Council Member	Jan 2016
Cathy Penney	Clerk	Jan 2014
Bev Schuler	Treasurer	Jan 2014
Richard Gross	Attorney	Jan 2014
Jerry Dunlay	Director of Public Works	Jan 2014
John Michels	Park Commissioner	Jan 2016
Don Fox	Park Commissioner	Jan 2014
Shelley Parks	Park Commissioner	Jan 2018*
Pam Masmar	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2017
Brad Weber	Library Trustee	Jul 2017
Dennis Johnson	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013

*Angela Nasstrom Appointed April 16, 2012 to fill unexpired term

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the primary government financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

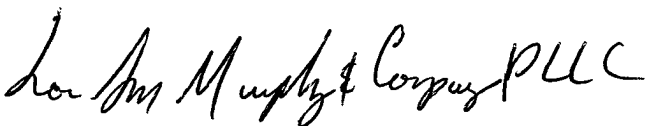
The financial statements referred to above include only the primary government of the City of Osage, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Osage as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, Osage Municipal Utilities has issued separate financial statements for which their auditors have issued their report dated July 12, 2012.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 25 through 27 are presented for purposes of additional analysis and are not a required part of the primary government financial statements. This information has not been subjected to the auditing procedures applied in the audit of the primary government financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Lou Ann Murphy & Company PLLC". The signature is written in a cursive, flowing style.

Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 59.8%, or approximately \$4,811,000, from fiscal 2011 to fiscal 2012. Note proceeds decreased \$4,505,000 and Grants and contributions not restricted to specific purposes decreased approximately \$185,000.
- Disbursements of the City's governmental activities increased 42.4%, or approximately \$3,197,000, in fiscal 2012 from fiscal 2011. Debt service and Capital project disbursements decreased approximately \$2,243,000 and \$1,563,000, respectively.
- The City's total cash basis net assets decreased 22.7%, or approximately \$1,222,000 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities decreased approximately \$1,092,000 and the assets of the business type activities decreased approximately \$130,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

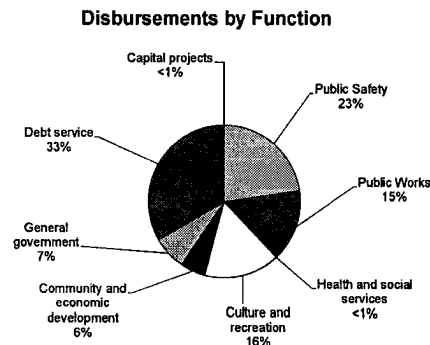
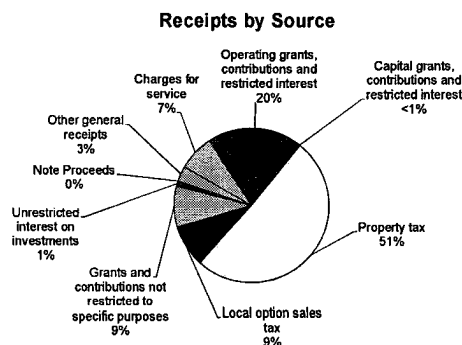
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3.970 million to \$2.878 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 241	\$ 400
Operating grants, contributions and restricted interest	640	662
Capital grants, contributions and restricted interest	5	13
General receipts:		
Property tax	1,641	1,566
Local option sales tax	288	273
Grants and contributions not restricted to specific purposes	277	462
Unrestricted interest on investments	36	65
Note proceeds	-	4,505
Other general receipts	103	96
Total receipts	<u>3,231</u>	<u>8,042</u>
Disbursements:		
Public safety	980	545
Public works	669	532
Health and social services	1	-
Culture and recreation	693	632
Community and economic development	236	298
General government	308	271
Debt service	1,445	3,688
Capital projects	3	1,566
Total disbursements	<u>4,335</u>	<u>7,532</u>
Change in cash basis net assets before transfers	(1,104)	510
Transfers, net	12	12
Change in cash basis net assets	(1,092)	522
Cash basis net assets beginning of year	3,970	3,448
Cash basis net assets end of year	<u>\$ 2,878</u>	<u>\$ 3,970</u>



The City's total receipts for governmental activities decreased 59.8%, or approximately \$4,811,000. The total cost of all programs and services decreased approximately \$3,197,000, or 42.4%. The significant decrease in receipts was primarily the result of note proceeds received in the prior year to refinance the Pool Project (CRC) Debt for additional construction expenses and provide \$325,000 loan to the Cedar River Complex and assessment payments received for the 2010 Street Project. The decrease in cost was due to the reduction in Debt Service and Capital Projects.

The cost of all governmental activities this year was \$4.335 million compared to \$7.532 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$3.450 million because some of the cost was paid by those who directly benefited from the programs (\$242,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$645,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in 2012 from approximately \$1,076,000 to approximately \$886,000. The City paid for the remaining "public benefit" portion of governmental activities (\$3,450,000) with taxes (some of which could only be used for certain programs), with bond proceeds and assessments used to issue an early call of 2008 G.O. Capital Loan Notes in amount of \$730,000 and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 394	\$ 378
Sewer	478	469
Solid waste	138	137
Operating grants, contributions and restricted interest	11	1
General receipts:		
Unrestricted interest on investments	17	29
Bond Proceeds	-	-
Total receipts	<u>1,038</u>	<u>1,014</u>
Disbursements:		
Water	493	410
Sewer	528	491
Solid waste	135	133
Total disbursements	<u>1,156</u>	<u>1,034</u>
Change in cash basis net assets before transfers	(118)	(20)
Transfers, net	<u>(12)</u>	<u>(12)</u>
Change in cash basis net assets	(130)	(32)
Cash basis net assets beginning of year	<u>1,416</u>	<u>1,448</u>
Cash basis net assets end of year	<u>\$ 1,286</u>	<u>\$ 1,416</u>

Total business type activities receipts for the fiscal year were approximately \$1.038 million compared to approximately \$1.014 million last year. The cash balance decreased by approximately \$130,000 from the prior year. Total disbursements for the fiscal year increased by 11.8% to a total of approximately \$1.156 million; mostly due to work done to extend Water and Sewer to serve AmericInn and Valent BioScience Site.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$2,877,608, a decrease of \$1,092,303 below last year's total of \$3,969,911. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$12,887 from the prior year to \$521,857. The increase was due to sale of 3 lots for new residential construction.
- Road Use Tax Fund cash balance decreased \$45,952 to \$271,287. This decrease was due to purchase of 3 traffic signal controllers and Cherry Street improvements.
- Tax Increment Financing Fund cash balance decreased \$189,905 to \$533,185. The decrease was a result of finishing work at City Park, re-roofing City Hall, CRC pool management contract payments and deferring CRC loan payments.
- The Debt Service Fund cash balance decreased \$1,860 to \$150,396. This decrease was due to using fund balance to cover bond registrar and paying agent fees.
- The Capital Project Fund cash balance decreased \$557,430 to \$679,961. This decrease is mainly due to closing the 2008 Street project fund and using funds to pay off \$730,000 of the 2008 G.O. Capital Loan Notes.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$79,644 to \$737,186, due primarily to engineering expenditures for the S 7th Street well house and extending water main on East State Street.
- The Sewer Fund cash balance decreased \$42,121 to \$450,401, primarily due to increased expenditures for Valent BioScience project and extending sewer main on East State Street.
- The Solid Waste Fund cash balance decreased \$7,977 to \$95,850.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2012 and resulted in an increase in operating disbursements related to expenditures in Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, Debt Service, Capital Projects, and Business Type Actives.

The City's receipts were \$10,338 less than budgeted.

Total disbursements were \$309,729 less than the amended budget. This was primarily due to fewer Main Street and Commercial loans, reduced Hotel/Motel (tourism) spending, and water and sewer work in Maple View sub-division starting later than anticipated. Health insurance and Worker's compensation insurance premiums were also less than budgeted.

DEBT ADMINISTRATION

At June 30, 2012, the City had approximately \$6,392,000 in bonds and other long-term debt, compared to approximately \$7,725,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2012	2011
General obligation notes	\$ 2,393	\$ 3,364
Revenue bonds	3,999	4,361
Total	<u>\$ 6,392</u>	<u>\$ 7,725</u>

Debt decreased as a result of \$730,000 early call note payment of the 2008 G.O. Capital loan notes.

The City continues to carry a general obligation bond rating of A1 assigned by national rating agencies to the City's debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,393,000 is significantly below its constitutional debt limit of \$7.9 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year budget, tax rates and fees. Property taxes and service fees provide 61% of the revenues necessary to provide services to the citizens of Osage.

The City property tax levy rate for fiscal year 2013 will be increased to 13.32767 from 12.94349. The rate change coupled with property valuation increases will result in an additional \$75,356 in tax revenue. The additional tax revenues will be used for General Fund expenditures. Tax Increment Financing Districts continue to produce revenue to fund economic development activities and debt service payments for the Pool/CRC project and Public Safety Building. Local Option Tax revenues are used to reduce property tax asking and provide funding for street improvements. Hotel/Motel taxes provide supplemental funds for Recreation, Tourism, and other community enhancements. Water & Sewer usage rates will be adjusted to reflect 2011 CPI increase of 3.2%.

There were no new Capital Projects in 2011-12. Planning has started for 2013 Street Paving Project. The project is expected to encompass approximately 13 blocks of concrete paving, primarily in the southwest quadrant of town. In April of 2011, Valent Biosciences Corporation announced plans to invest \$150 million in a new manufacturing facility in Mitchell County, adjacent to the Osage City limits. The company expects to add 90 jobs in the community. Construction on the Valent facility is underway. The City has extended water and sewer mains to serve the facility which is scheduled to open in 2014. Design work for the wastewater pre-treatment area and improvements to the City's wastewater plant is on schedule. Bids for the wastewater construction and improvements are scheduled to be received in January 2013.

The residents of Osage continue to be impacted by state, national and international economic issues. Local employment remains stable, home foreclosures are few in number and existing homes are being purchased. Several local contractors are participating in the Community Development Block Grant Single Family New Construction Program. Five new residences are under construction. Property along Kirkwood Avenue was annexed into the City and Maple View sub-division established. All municipal utility services have been installed in the sub-division and 18 lots are now available for new home construction. In addition to the annexation for Maple View sub-division, two business owners sought voluntary annexation to accommodate business creation and expansion. The AmericInn opened for business in June 2012 and Osage Auto Body's new building is scheduled for completion in December 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 980,618	16,834	7,771	4,500
Public works	668,607	61,438	343,266	-
Health and social services	717	355	200	-
Culture and recreation	693,260	101,501	251,938	-
Community and economic development	236,150	60	-	-
General government	308,360	61,333	-	-
Debt service	1,444,619	-	36,428	-
Capital projects	3,323	-	-	-
Total governmental activities	4,335,654	241,521	639,603	4,500
Business type activities:				
Water	492,641	394,225	8,815	-
Sewer	527,567	478,109	1,918	-
Solid waste	135,013	137,757	-	-
Total business type activities	1,155,221	1,010,091	10,733	-
Total	\$ 5,490,875	1,251,612	650,336	4,500
General Receipts:				
Property tax and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Bond Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Cemetery Perpetual Care				
Expendable:				
Streets				
Urban renewal purposes				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(951,513)	-	\$ (951,513)
(263,903)	-	(263,903)
(162)	-	(162)
(339,821)	-	(339,821)
(236,090)	-	(236,090)
(247,027)	-	(247,027)
(1,408,191)	-	(1,408,191)
(3,323)	-	(3,323)
(3,450,030)	-	(3,450,030)
-	(89,601)	(89,601)
-	(47,540)	(47,540)
-	2,744	2,744
-	(134,397)	(134,397)
(3,450,030)	(134,397)	\$ (3,584,427)
\$ 1,050,073	-	\$ 1,050,073
-	-	-
590,639	-	590,639
288,309	-	288,309
277,184	-	277,184
36,243	16,655	52,898
-	-	-
103,280	-	103,280
12,000	(12,000)	-
2,357,728	4,655	2,362,383
(1,092,302)	(129,742)	(1,222,044)
3,969,911	1,416,179	5,386,090
\$ 2,877,609	1,286,437	\$ 4,164,046
\$ 107,000	-	\$ 107,000
91,317	-	91,317
592,265	17,966	610,231
271,287	-	271,287
56,529	-	56,529
557,393	-	557,393
686,022	-	686,022
515,796	1,268,471	1,784,267
\$ 2,877,609	1,286,437	\$ 4,164,046

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

		Special Revenue		
		Road	Tax	
	General	Use	Increment	Debt
		Tax	Financing	Service
Receipts:				
Property tax	\$ 678,561	-	-	-
Tax increment financing	-	-	590,639	-
Other city tax	44,162	-	-	-
Licenses and permits	7,979	-	-	-
Use of money and property	22,535	-	6,218	1,419
Intergovernmental	136,728	343,266	-	36,428
Charges for service	105,235	-	-	-
Special assessments	12,540	-	-	2,280
Miscellaneous	428,332	-	-	-
Total receipts	1,436,072	343,266	596,857	40,127
Disbursements:				
Operating:				
Public safety	616,988	-	-	-
Public works	267,630	389,218	-	-
Health and social services	-	-	-	-
Culture and recreation	628,048	-	65,212	-
Community and economic development	99,194	-	49,105	-
General government	272,703	-	34,607	-
Debt service	-	-	325,134	1,119,485
Capital projects	-	-	-	-
Total disbursements	1,884,563	389,218	474,058	1,119,485
Excess (deficiency) of receipts over (under) disbursements	(448,491)	(45,952)	122,799	(1,079,358)
Other financing sources (uses):				
Note Proceeds	-	-	-	-
Operating transfers in	461,578	-	-	1,077,499
Operating transfers out	(200)	-	(312,704)	-
Total other financing sources (uses)	461,378	-	(312,704)	1,077,499
Net change in cash balances	12,887	(45,952)	(189,905)	(1,859)
Cash balances beginning of year	508,970	317,239	723,090	152,256
Cash balances end of year	521,857	271,287	533,185	150,397
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Urban Renewal purposes	-	-	91,317	-
Debt service	-	-	441,868	150,397
Streets	-	271,287	-	-
Other purposes	-	-	-	-
Committed	-	-	-	-
Assigned	6,061	-	-	-
Unassigned	515,796	-	-	-
Total cash basis fund balances	\$ 521,857	271,287	533,185	150,397

See notes to financial statements.

Exhibit B

Capital Projects	Nonmajor	Total
-	297,091	\$ 975,652
-	-	590,639
-	318,567	362,729
-	-	7,979
11,770	8,950	50,892
-	250	516,672
-	21,117	126,352
54,764	-	69,584
-	102,521	530,853
<u>66,534</u>	<u>748,496</u>	<u>3,231,352</u>
-	363,630	980,618
-	11,759	668,607
-	717	717
-	.	693,260
-	87,851	236,150
-	1,050	308,360
-	-	1,444,619
3,323	-	3,323
<u>3,323</u>	<u>465,007</u>	<u>4,335,654</u>
<u>63,211</u>	<u>283,489</u>	<u>(1,104,302)</u>
-	-	-
169,660	48,350	1,757,087
<u>(790,301)</u>	<u>(641,882)</u>	<u>(1,745,087)</u>
<u>(620,641)</u>	<u>(593,532)</u>	<u>12,000</u>
(557,430)	(310,043)	(1,092,302)
<u>1,237,391</u>	<u>1,030,965</u>	<u>3,969,911</u>
<u>679,961</u>	<u>720,922</u>	<u>\$ 2,877,609</u>
-	107,000	107,000
-	-	91,317
-	-	592,265
-	-	271,287
-	56,529	56,529
-	557,393	557,393
679,961	-	686,022
-	-	515,796
<u>679,961</u>	<u>720,922</u>	<u>\$ 2,877,609</u>

City of Osage

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 394,225	478,109	137,757	\$ 1,010,091
Operating disbursements:				
Business type activities	492,641	312,621	135,013	940,275
Excess (deficiency) of operating receipts over (under) operating disbursements	(98,416)	165,488	2,744	69,816
Non-operating receipts (disbursements):				
Interest on investments	9,957	5,419	1,279	16,655
Miscellaneous	8,815	1,918	-	10,733
Debt Service	-	(214,946)	-	(214,946)
Net non-operating receipts (disbursements)	18,772	(207,609)	1,279	(187,558)
Excess (deficiency) of receipts over (under) disbursements	(79,644)	(42,121)	4,023	(117,742)
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(12,000)	(12,000)
Total other financings sources (uses)	-	-	(12,000)	(12,000)
Net change in cash balances	(79,644)	(42,121)	(7,977)	(129,742)
Cash balances beginning of year	816,830	492,522	106,827	1,416,179
Cash balances end of year	\$ 737,186	450,401	98,850	\$ 1,286,437
Cash Basis Fund Balances				
Restricted for debt service	\$ -	17,966	-	\$ 17,966
Unrestricted	737,186	432,435	98,850	1,268,471
Total cash basis fund balances	\$ 737,186	450,401	98,850	\$ 1,286,437

See notes to financial statements.

City of Osage

City of Osage

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments except for Floyd-Mitchell-Chickasaw County Solid Waste Management Agency (see Note 11). City officials are members of the

following boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, Floyd County Joint E911 Service Board, Cedar River Recreation and Fine Arts Complex, and Osage Community and Surrounding Areas Fire Service Agreement.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Cemetery Perpetual Care Fund and Ingeborg Hallingby Memorial Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for projects related to the construction of capital assets.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$14,653</u>	August 2019

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	246,000	110,577	379,000	165,038	625,000	275,615
2014	251,000	103,118	190,000	152,855	441,000	255,973
2015	121,000	95,295	215,000	146,018	336,000	241,313
2016	126,000	91,342	240,000	138,055	366,000	229,397
2017	131,000	87,158	250,000	128,780	381,000	215,938
2018-2022	618,000	360,250	1,545,000	477,740	2,163,000	837,990
2023-2027	615,000	202,095	1,180,000	111,740	1,795,000	313,835
2028-2029	285,000	26,660	-	-	285,000	26,660
Total	\$ 2,393,000	\$ 1,076,495	3,999,000	1,320,226	\$ 6,392,000	\$ 2,396,721

Urban Renewal Revenue Annual Appropriation Bonds

The City issued two urban renewal revenue annual appropriation bonds for a total of \$4,145,000 in September 2010 for the purpose of redeeming the Urban Renewal Revenue Annual Appropriation Capital Loan Notes, Series 2008 and to pay project expenses related to the Cedar River Complex in the urban renewal district. The bonds are payable solely out of the net revenues of the project area, including the tax increment revenue. Total principal and interest remaining on the bonds is \$5,103,643, payable through June 2025. For the current year principal/interest paid and total TIF receipts were \$325,134 and \$596,857, respectively.

Sewer Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$797,000 of sewer revenue notes issued in April 2009. Proceeds from the notes provided financing to refund prior debt. The notes are payable solely from sewer customer net receipts and are payable through 2013. Annual principal and interest payments on the notes are expected to require more than 100% of net receipts. There is sufficient fund balance to cover principal and interest. The total principal and interest remaining to be paid on the notes is \$215,584. For the current year, principal and interest paid and total customer net receipts were \$214,946 and \$165,488, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the special revenue and enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds and tax increment revenue bond sinking account within the Special Revenue Funds for the purpose of making the bond principal and interest payments when due.
- (c) Funds shall be placed in reserve account from the proceeds of the bonds within the Special Revenue Fund. This account is restricted for the purpose of paying note and interest payments which the other accounts might be unable to make.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$77,800, \$70,226, and \$67,874, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses in the form of a traditional plan and a high deductible plan each costing the City the same amount. There are 18 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The City currently has 8 options available through their Wellmark policy – 4 in the traditional plan and 4 in the high deductible plan. The most recent active member monthly premiums for the traditional plan for the City and plan members are \$526.07 for single, \$1,077.38 for employee and spouse, \$995.84 for employee and child, and \$1,614.50 for family coverage. The most recent active member monthly premiums for the high deductible plan for the City and plan members are \$434.45 for single, \$889.76 for employee and spouse, \$822.42 for employee and child, and \$1,333.33 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$254,104 and plan members eligible for benefits contributed \$11,313 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2012, is as follows:

Type of Benefit	Amount
Vacation	\$36,200
Compensatory	<u>2,763</u>
Total	<u>\$38,963</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 277,255
	Emergency Levy	20,377
	Local Option Sales Tax	102,243
	Park and Recreation	34,734
	Police Special Project/DARE	3,531
	Hotel/Motel	11,438
	Enterprise:	
	Solid Waste	12,000
		<u>\$ 461,578</u>
Soecial Revenue:		
Jaws of Life	General	\$ 200
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 287,198
	Capital Projects	752,681
	Capital Projects	37,620
		<u>\$ 1,077,499</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	\$ 144,154
	Tax Increment Financing	25,506
		<u>\$ 169,660</u>
Main Street Loan	Special Revenue:	
	Commercial Loan	\$ 45,650
Parks and Recreation	Special Revenue:	
	Hotel/Motel	\$ 2,500
		<u>\$ 1,757,087</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,106 during the fiscal year ended June 30, 2012.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Component Unit

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 138,387
Billing services (bookkeeping)	18,726
Phone and internet	7,309
Miscellaneous	<u>38,174</u>
Total	<u>\$ 202,596</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$ 987,648
Donations in lieu of taxes	82,822
Bond principal & interest & Pool Support Donations	161,000
Cable franchise fee	29,790
Miscellaneous	<u>36,660</u>
Total	<u>\$ 1,297,920</u>

(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected or appointed representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2012, the City of Osage paid Jendro Sanitation \$126,916 for City wide pickup. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(12) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 2.5% to 5% interest payable at \$741 plus interest per month. The balance owed to the City at June 30, 2012 by OMI was \$82,221. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2012 by A to Z Drying, Inc. was \$31,904.

Under the Main Street Loan Program, the City provides funds to small businesses along Main Street, in accordance with the provisions of Chapter 15A of the Code of Iowa. The Main Street Loan Program is currently made up of eleven loans with no interest. The balance of the loans at June 30, 2012 was \$96,600. Payments are to be made on January 10th or the anniversary date for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10th or the anniversary date of the fifth year.

The Commercial Loan Program expands on the Main Street Loan Program to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of fourteen loans with no interest. The balance of these loans at June 30, 2012 was \$89,850 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

In August of 2011, the City approved an agreement with A to Z Drying, Inc. in connection with the company's development of an expanded facility in the Urban Renewal Area. The agreement entitles the Company to receive assistance in the form of a rebate by the City of 80% of Tax Increment received from the Minimum Improvements. The rebate shall begin on October 1, 2014 and extend until June 30, 2024 and at no time shall exceed \$26,000 annually.

(13) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$815,342 is outstanding at June 30, 2012. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(14) Leases

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Verizon Wireless under three and five-year renewable operating leases. The City receives monthly payments of \$113, \$227 and \$619 from U.S. Cellular, Osage Municipal Utilities and Verizon Wireless, respectively. Under the terms of the current lease agreements, annual payments for each of the following four fiscal years are as follows:

2013	11,516
2014	4,089
2015	2,038
2016	1,352
2017	1,127

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage received a payment of \$4,000 for year two of the two-year renewable lease in fiscal year 2012.

Total rent income from leases for fiscal year ending June 30, 2012 was \$14,882.

Also, the City leases the parking lot property from Mayer's Digging Company at the soccer field. The City pays \$1 per year for the property renewable annually.

(15) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year,

respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare was current on their payments as of June 30, 2012.

(16) Commitments

As of June 30, 2012, the City did not have any pending projects.

(17) Partial Self Funded Insurance

The City will pay up to \$500 for a single and up to \$1,000 for a family for each employee's deductible on his or her health insurance plan. For the period ending June 30, 2012 the City had seven employees on the partial self funded insurance plan with a maximum liability of \$5,500 and expenditures of \$1,030 leaving a remaining liability of \$4,470 thru the end of December 2012.

(18) Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 31, 2012.

City of Osage

City of Osage

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 975,652	-	-
Tax increment financing	590,639	-	-
Other city tax	362,729	-	-
Licenses and permits	7,979	-	-
Use of money and property	50,892	16,655	2
Intergovernmental	516,672	-	-
Charges for service	126,352	1,010,091	1,557
Special assessments	69,584	-	-
Miscellaneous	530,853	10,733	540
Total receipts	<u>3,231,352</u>	<u>1,037,479</u>	<u>2,099</u>
Disbursements:			
Public safety	980,618	-	-
Public works	668,607	-	-
Health and Social Services	717	-	-
Culture and recreation	693,260	-	-
Community and economic development	236,150	-	-
General government	308,360	-	-
Debt service	1,444,619	-	-
Capital projects	3,323	-	-
Business type activities	-	1,155,221	-
Total disbursements	<u>4,335,654</u>	<u>1,155,221</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(1,104,302)	(117,742)	2,099
Other financing sources (uses), net	<u>12,000</u>	<u>(12,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,092,302)	(129,742)	2,099
Balances beginning of year	<u>3,969,911</u>	<u>1,416,179</u>	<u>104,905</u>
Balances end of year	<u><u>\$ 2,877,609</u></u>	<u><u>1,286,437</u></u>	<u><u>107,004</u></u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 975,652	974,332	974,332	\$ 1,320
590,639	568,000	585,000	5,639
362,729	350,220	359,520	3,209
7,979	6,450	6,450	1,529
67,545	84,258	151,008	(83,463)
516,672	492,038	538,463	(21,791)
1,134,886	1,077,600	1,118,475	16,411
69,584	46,449	69,420	164
541,046	344,519	474,401	66,645
<u>4,266,732</u>	<u>3,943,866</u>	<u>4,277,069</u>	<u>(10,337)</u>
980,618	1,062,234	1,028,004	47,386
668,607	600,363	714,122	45,515
717	-	3,000	2,283
693,260	558,519	732,608	39,348
236,150	197,450	288,350	52,200
308,360	324,200	316,600	8,240
1,444,619	715,376	1,445,376	757
3,323	20,000	23,000	19,677
<u>1,155,221</u>	<u>1,204,544</u>	<u>1,249,544</u>	<u>94,323</u>
<u>5,490,875</u>	<u>4,682,686</u>	<u>5,800,604</u>	<u>309,729</u>
(1,224,143)	(738,820)	(1,523,535)	299,392
<u>-</u>	<u>26,700</u>	<u>40,200</u>	<u>(40,200)</u>
(1,224,143)	(712,120)	(1,483,335)	259,192
<u>5,281,185</u>	<u>4,848,461</u>	<u>5,386,090</u>	<u>(104,905)</u>
<u>\$ 4,057,042</u>	<u>4,136,341</u>	<u>3,902,755</u>	<u>\$ 154,287</u>

Other Information

City of Osage

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,117,918 and increased budgeted receipts by \$333,203. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Osage
 Schedule of Cash Receipts, Disbursements
 and Changes in Cash Balances
 Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

	Special Revenue				
	Local Option Sales Tax	Forfeited Property	Employee Benefits	Emergency Levy	Hotel/Motel
Receipts:					
Property Tax	\$ -	-	276,751	20,340	-
Tax Increment Financing Collections	-	-	-	-	-
Other City Tax	288,308	-	504	37	29,718
Licenses and Permits	-	-	-	-	-
Use of Money & Property	1,381	30	-	-	210
Intergovernmental	-	-	-	-	-
Charges for Service	-	415	-	-	355
Special Assessments	-	-	-	-	-
Miscellaneous	-	-	-	-	200
Total receipts	<u>289,689</u>	<u>445</u>	<u>277,255</u>	<u>20,377</u>	<u>30,483</u>
Disbursements:					
Operating					
Public Safety	-	947	-	-	500
Public Works	-	-	-	-	-
Health and social services	-	-	-	-	717
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	7,844
General government	-	-	-	-	1,050
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>-</u>	<u>947</u>	<u>-</u>	<u>-</u>	<u>10,111</u>
Excess (deficiency) of receipts over (under) disbursements	<u>289,689</u>	<u>(502)</u>	<u>277,255</u>	<u>20,377</u>	<u>20,372</u>
Other Financing Sources (uses)					
Debt proceeds	-	-	-	-	-
Operating Transfers in	-	-	-	-	-
Operating Transfers out	(246,397)	-	(277,255)	(20,377)	(13,938)
Total other financing sources (uses)	<u>(246,397)</u>	<u>-</u>	<u>(277,255)</u>	<u>(20,377)</u>	<u>(13,938)</u>
Net change in cash balances	43,292	(502)	-	-	6,434
Cash balances beginning of year	<u>132,990</u>	<u>5,468</u>	<u>-</u>	<u>-</u>	<u>17,847</u>
Cash balances end of year	<u>\$ 176,282</u>	<u>4,966</u>	<u>-</u>	<u>-</u>	<u>24,281</u>
Cash Basis Fund Balances					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Streets	-	-	-	-	-
Other purposes	-	4,966	-	-	-
Committed	<u>176,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,281</u>
Total cash basis fund balances	<u>\$ 176,282</u>	<u>4,966</u>	<u>-</u>	<u>-</u>	<u>24,281</u>

See accompanying independent auditor's report.

	Special				
	Jaws of Life	Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Main Street Loan
Receipts:					
Property Tax	\$ -	-	-	-	-
Tax Increment Financing Collections	-	-	-	-	-
Other City Tax	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Use of Money & Property	92	469	326	5,631	262
Intergovernmental	-	-	-	-	-
Charges for Service	-	18,790	-	-	-
Special Assessments	-	-	-	-	-
Miscellaneous	400	37,711	54,550	-	7,720
Total receipts	492	56,970	54,876	5,631	7,982
Disbursements:					
Operating					
Public Safety	90	-	-	-	-
Public Works	-	-	-	-	-
Health and social services	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	20,007	-	60,000
General government	-	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	90	-	20,007	-	60,000
Excess (deficiency) of receipts over (under) disbursements	402	56,970	34,869	5,631	(52,018)
Other Financing Sources (uses)					
Debt proceeds	-	-	-	-	-
Operating Transfers in	200	2,500	-	-	45,650
Operating Transfers out	-	(34,734)	(45,650)	-	-
Total other financing sources (uses)	200	(32,234)	(45,650)	-	45,650
Net change in cash balances	602	24,736	(10,781)	5,631	(6,368)
Cash balances beginning of year	8,943	68,242	53,451	175,114	33,530
Cash balances end of year	9,545	92,978	42,670	180,745	27,162
Cash Basis Fund Balances					
Nonspendable	\$ -	-	-	-	-
Restricted for:					
Streets	-	-	-	-	-
Other purposes	-	23,385	-	-	27,162
Committed	9,545	69,593	42,670	180,745	-
Total cash basis fund balances	\$ 9,545	92,978	42,670	180,745	27,162

Schedule 1 Con't

Revenue			Permanent		Total
Capital Improvement Revolving	Police Special Project /DARE	I-JOBS	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	
-	-	-	-	-	\$ 297,091
-	-	-	-	-	-
-	-	-	-	-	318,567
-	-	-	-	-	-
456	91	-	-	2	8,950
-	250	-	-	-	250
-	-	-	1,557	-	21,117
-	-	-	-	-	-
-	1,400	-	540	-	102,521
456	1,741	-	2,097	2	748,496
362,093	-	-	-	-	363,630
-	-	11,759	-	-	11,759
-	-	-	-	-	717
-	-	-	-	-	-
-	-	-	-	-	87,851
-	-	-	-	-	1,050
-	-	-	-	-	-
-	-	-	-	-	-
362,093	-	11,759	-	-	465,007
(361,637)	1,741	(11,759)	2,097	2	283,489
-	-	-	-	-	-
-	-	-	-	-	48,350
-	(3,531)	-	-	-	(641,882)
-	(3,531)	-	-	-	(593,532)
(361,637)	(1,790)	(11,759)	2,097	2	(310,043)
409,083	9,633	11,759	104,603	302	1,030,965
47,446	7,843	-	106,700	304	\$ 720,922
-	-	-	106,700	300	107,000
-	-	-	-	-	-
-	1,012	-	-	4	56,529
47,446	6,831	-	-	-	557,393
47,446	7,843	-	106,700	304	\$ 720,922

City of Osage
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2008 Street Improvement	6/1/2008	2.75-4.00%	1,345,000
2009 Public Safety Building	7/1/2009	2.80-6.20%	2,010,000
2010 REDLG Public Safety	8/6/2010	0.00%	360,000
Total			
Revenue bonds:			
2009 Sewer Revenue Refunding Capital Loan Notes	4/30/2009	2.75-3.15%	797,000
2010A Urban Renewal Revenue Annual Appropriation	9/1/2010	1.00-4.70%	3,770,000
2010B Urban Renewal Revenue Annual Appropriation	9/1/2010	4.75%	375,000
Total			

See accompanying independent auditor's report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
1,110,000	-	855,000	255,000	41,103	-
1,930,000	-	80,000	1,850,000	104,080	-
324,000	-	36,000	288,000	-	-
<u>3,364,000</u>	<u>-</u>	<u>971,000</u>	<u>\$ 2,393,000</u>	<u>\$ 145,183</u>	<u>-</u>
411,000	-	202,000	209,000	12,947	-
3,635,000	-	105,000	3,530,000	148,205	-
315,000	-	55,000	260,000	14,963	-
<u>4,361,000</u>	<u>-</u>	<u>362,000</u>	<u>\$ 3,999,000</u>	<u>\$ 176,115</u>	<u>-</u>

Other Information

City of Osage
Bond and Note Maturities

June 30, 2012

General Obligation Notes							
Year Ending June 30,	2009 Public Safety Building		2008 Street Improvement		2010 REDLG Public Safety		Total
	Issued Jun 1, 2008		Issued Jun 1, 2008		Issued Aug 6, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2013	3.85	85,000	3.35	125,000	0.00	36,000	246,000
2014	3.85	85,000	3.50	130,000	0.00	36,000	251,000
2015	4.65	85,000		-	0.00	36,000	121,000
2016	4.65	90,000		-	0.00	36,000	126,000
2017	5.00	95,000		-	0.00	36,000	131,000
2018	5.00	95,000		-	0.00	36,000	131,000
2019	5.35	100,000		-	0.00	36,000	136,000
2020	5.35	100,000		-	0.00	36,000	136,000
2021	5.75	105,000		-		-	105,000
2022	5.75	110,000		-		-	110,000
2023	5.90	115,000		-		-	115,000
2024	5.90	120,000		-		-	120,000
2025	6.00	125,000		-		-	125,000
2026	6.00	125,000		-		-	125,000
2027	6.20	130,000		-		-	130,000
2028	6.20	140,000		-		-	140,000
2029	6.20	145,000		-		-	145,000
Total		\$ 1,850,000		\$ 255,000		\$ 288,000	\$ 2,393,000

Revenue Bonds							
Year Ending June 30,	2009 Sewer Revenue		2010A Urban Renewal		2010B Urban Renewal		Total
	Refunding Capital Loan Notes		Revenue Annual		Revenue Annual		
	Issued Apr 30, 2009		Appropriation		Appropriation		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2013	3.15	209,000	2.50	110,000	4.75	60,000	379,000
2014		-	3.00	125,000	4.75	65,000	190,000
2015		-	3.25	150,000	4.75	65,000	215,000
2016		-	3.50	170,000	4.75	70,000	240,000
2017		-	3.75	250,000		-	250,000
2018		-	4.00	275,000		-	275,000
2019		-	4.10	285,000		-	285,000
2020		-	4.20	310,000		-	310,000
2021		-	4.30	330,000		-	330,000
2022		-	4.40	345,000		-	345,000
2023		-	4.50	365,000		-	365,000
2024		-	4.60	400,000		-	400,000
2025		-	4.70	415,000		-	415,000
Total		\$ 209,000		\$ 3,530,000		\$ 260,000	\$ 3,999,000

See accompanying independent auditor's report.

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Nine Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts:			
Property tax	\$ 975,652	\$ 910,338	\$ 862,795
Tax increment financing	590,639	589,220	546,172
Other city tax	362,729	339,082	373,545
Licenses and permits	7,979	8,049	5,989
Use of money and property	50,892	79,327	107,632
Intergovernmental	516,672	470,221	737,768
Charges for service	126,352	100,715	55,769
Special assessments	69,584	264,414	136,036
Miscellaneous	530,853	775,559	337,540
Total	<u>\$ 3,231,352</u>	<u>\$ 3,536,925</u>	<u>\$ 3,163,246</u>
Disbursements:			
Operating:			
Public safety	\$ 980,618	\$ 544,783	\$ 541,641
Public works	668,607	532,216	579,328
Health and social services	717	-	-
Culture and recreation	693,260	631,683	426,520
Community and economic development	236,150	297,984	585,756
General government	308,360	271,159	246,146
Debt service	1,444,619	3,688,210	633,140
Capital projects	3,323	1,565,687	2,258,179
Total	<u>\$ 4,335,654</u>	<u>\$ 7,531,722</u>	<u>\$ 5,270,710</u>

See accompanying independent auditor's report.

Schedule 4

2009	2008	2007	2006	2005	2004
839,252	816,163	986,053	948,134	924,410	929,385
522,457	504,941	474,680	433,742	400,831	372,459
338,849	351,569	281,002	245,649	222,034	235,857
4,596	8,414	6,424	6,245	7,033	7,100
170,001	163,946	130,831	111,443	61,027	37,216
1,667,691	636,485	405,980	432,009	645,194	450,225
54,749	61,844	62,590	62,099	50,849	61,464
372,699	77,316	302,380	60,104	198,032	95,373
223,881	188,078	153,387	182,660	191,797	203,630
<u>4,194,175</u>	<u>2,808,756</u>	<u>2,803,327</u>	<u>2,482,085</u>	<u>2,701,207</u>	<u>2,392,709</u>
539,751	601,197	439,691	451,189	414,667	422,064
469,604	508,426	399,694	351,946	356,906	458,405
-	-	-	-	-	-
418,306	481,000	422,427	413,221	413,562	380,765
1,424,797	616,383	368,506	125,515	100,988	452,292
223,844	238,329	217,936	257,076	209,121	190,628
453,268	138,241	539,631	431,218	462,534	1,447,522
3,774,284	569,203	285,069	580,557	193,032	404,607
<u>7,303,854</u>	<u>3,152,779</u>	<u>2,672,954</u>	<u>2,610,722</u>	<u>2,150,810</u>	<u>3,756,283</u>

City of Osage

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The management of the City of Osage is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Osage's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-12 and II-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Osage's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osage's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Osage's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lou Ann Murphy & Company, P.L.L.C.
Certified Public Accountants
Osage, Iowa
October 31, 2012

City of Osage

Schedule of Findings

Year ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

City of Osage

Schedule of Findings

Year ended June 30, 2012

Part II: Findings Related to the Primary Government Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-12 Credit card policy – The Library uses a credit card but does not have a written credit card policy.

Recommendation – The Library should have a written credit card policy.

Response – We will do so.

Conclusion – Response accepted.

- II-C-12 Fire protection – It was noted that the City does not have adequate fire protection in the form of smoke detectors and/or non-water base fire suppression systems.

Recommendation – The City should place smoke detectors in all appropriate locations.

Response – We will do so.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Osage

Schedule of Findings

Year ended June 30, 2012

Part III: Other Findings Related to Statutory Reporting:

III-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.

III-B-12 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance, parts and labor	\$ 3,195
Steven Cooper, Mayor, Owner of Coopers Auto	Parts and labor	1,767
John Michels, Park Board Member	Umpire	144

In accordance with Chapter 362.5(10) of the Code of Iowa, the first two amounts appear to represent a conflict of interest. The amounts are over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

III-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Osage

Schedule of Findings

Year ended June 30, 2012

- III-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-12 Revenue Bonds – The City has complied with the revenue bonds resolutions.
- III-I-12 Telecommunications Utility – Osage Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated July 12, 2012 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.